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## CHAPTER VI

## The Currency Problem of Austria

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THE fate of Austrian currency best shows the serious consequences of the Peace Treaty and the dismemberment of the old Monarchy which formed a homogeneous simple territory as far as customs and currency were concerned. At the beginning of the War, the currency of the old state was on the whole consolidated. By an appropriate exchange policy, the Austro-Hungarian Bank succeeded in maintaining the gold parity of its notes.<sup>1</sup> On July 23, 1914, the bank boasted a metal reserve of 1,589 million kronen and a bank note circulation of 2,130 millions; *i.e.*, 75 per cent was covered in gold. During the War this relation sank as inflation increased. At the time of the break-down of Austria-Hungary, November, 1918, the circulation of bank notes amounted to 35.6 billion kronen, the outstanding debts, *Giroguthaben*, to 7.1 billion; that is, the current liabilities amounted, altogether, to 42.7 billion kronen, covered by the metal reserve only to the extent of eight-tenths of one per cent. Simultaneously, the value of the Austrian krone in the foreign markets rapidly depreciated. New York bills in Vienna which, at the end of August, 1914, noted 5.12 kronen, rose at the end of 1915 to 7.85 kronen, the price of the dollar in Vienna; at the end of 1916, to 9.56; after the break-down at the end of November, 1918, to 15.82; at the end of June, 1919, to 30.25; in October, 1919, to 103; in December, 1919, to 155; in February, 1920, to 250; in June, 1920, to 148; in October,

1920, to 405; in December, 1920, to 659; in April, 1921, to 666 and, on July 23, 1921, to 846 kronen.

The dreadful depreciation of the currency illustrated by these figures, set in with the break-down of the monetary unity and with the process of a total separation of the single Succession States from the formerly uniform currency system of the Monarchy. This process of separation was also accompanied by sad consequences for the bank notes of the other Succession States, though these were distinguished from the Austrian notes by being impressed with a stamp to show the country to which they belonged. The rate of exchange of these notes sank likewise below the level of that of the uniform notes of former Austria in the foreign markets. The depreciation within the five small new currency units differed only in extent from that of Austria, and was, of course, modified according to the degree of the economic consolidation and equipment occasioned by the terms of the Peace Treaty. The first to begin with the currency separation was Jugo-Slavia, which on January 8, 1919, ordered the Austro-Hungarian notes on Jugo-Slav territory to be stamped with a national mark; Czecho-Slovakia followed suit by the law of February 25, 1919; then came Poland and, at last, Hungary in 1920.

All the Succession States carried out these measures without first trying to arrive at an agreement either with the Austro-Hungarian Bank or with the banks of neighboring countries, though an understanding with regard to an

<sup>1</sup> Irving Fisher, "The Purchasing Power of Money," New York, 1911.

organized separation of the currencies would have been best for all concerned. With the creation of independent national currencies, their independent quotations were started in the foreign markets first on an approximately even basis and later, in 1919 and 1920, with an always greater differentiation to the detriment of the remaining and also nationally stamped Austrian currency. The figures in Table 1 show the enormous change in the value of the Austrian krone; here the rate of exchange

lowed; the export, still prohibited. Up till now, the Auslands kronen have been quoted higher than the Inlands kronen, since the former could be used for payment not only in Austria but also abroad, and as their available number is limited, while the latter may as a rule be used for payment or investments in Austria only. Table 2 shows the movement of the rate of exchange of the cheques on Vienna in Zurich (Auszahlung Wien, Geldkurs), i.e., the rate of exchange of

TABLE 1  
RATE OF EXCHANGE ON CHEQUES ON ZURICH IN VIENNA

	1918	1919	1920	1921
January . . . . .	.....	324.64	3,928.00	.....
February . . . . .	.....	.....	.....	(14.) 11,000
March . . . . .	.....	410.53	3,865.38	.....
April . . . . .	.....	.....	.....	(30.) 11,650
May . . . . .	.....	469.16	3,492.00	.....
June . . . . .	.....	.....	.....	.....
July . . . . .	.....	618.69	2,735.18	(5.) 12,590 (22.) 13,925
August . . . . .	.....	.....	.....	.....
September . . . . .	.....	1,022.00	4,119.00	.....
October . . . . .	(31.) 230.50	.....	.....	.....
November . . . . .	(30.) 273.25	2,127.86	7,521.69	.....
December . . . . .	(30.) 323.25	.....	10,175.00	.....

of the cheques on Zurich in Vienna shows the movement in Austrian kronen. (Where no specific date is stated, monthly average quotations are given.)

A still more distinct language is spoken by the rates of exchange in the chief money markets of Europe: Zurich, Amsterdam and London. As Austria had prohibited the export of kronen bank notes with the purpose of stopping the overstocking of foreign markets (without, however, being able to prevent smuggling), a difference was produced between the rate of exchange of "inland kronen" *Inlandskronen* and "foreign kronen," *Auslandskronen*. At present, the import of kronen is al-

lowed; the export, still prohibited. Up till now, the *Auslands kronen* have been quoted higher than the *Inlands kronen*, since the former could be used for payment not only in Austria but also abroad, and as their available number is limited, while the latter may as a rule be used for payment or investments in Austria only. Table 2 shows the movement of the rate of exchange of the cheques on Vienna in Zurich (Auszahlung Wien, Geldkurs), i.e., the rate of exchange of

the *Auslands kronen*, while the rate of exchange of the *österreichisch gestempelte Kronennoten* (bank notes stamped by the Republic of Austria) has always been some points lower than that of the *Auslands kronen*. Not until some time after the prohibition of import embargo for kronen had been removed did the rate of exchange of the cheques on Vienna drop to the level of the *kronen* bank notes.

This survey shows well enough that the real catastrophe of the rate of exchange only took place *after* the War in the years 1919 and 1920. Before the separation of the currencies, the Austrian krone noted 42.50 centimes and

TABLE 2  
CHEQUES "ZURICH-VIENNA" AT ZURICH (100 KRONEN AND CENTIMES)

Month m. = medio, u. = ultimo	1918	1919	1920	1921
January . . . . .	.....	{ m. 30.15 u. ....	{ m. 2.30 u. 2.05	{ m. 1.22½ u. 1.77½
February . . . . .	.....	{ m. 24.50 u. 23.40	{ m. 2.05 u. 2.35	{ m. 1.50 u. 1.30
March . . . . .	.....	{ m. 24.00 u. ....	{ m. 2.40 u. 2.70	{ m. 1.37½ u. 1.55
April . . . . .	.....	{ m. 18.00 u. 18.75	{ m. 2.75 u. 2.70	{ m. 1.70 u. 1.50
May . . . . .	.....	{ m. 21.00 u. 18.75	{ m. 2.70 u. 4.25	{ m. 1.30 u. 1.35
June . . . . .	.....	{ m. 17.00 u. 18.50	{ m. 3.70 u. 3.85	{ m. 1.25 u. 0.97
July . . . . .	.....	{ m. 16.50 u. 11.50	{ m. 3.70 u. 3.42½	{ m. 0.82 21. 0.77
August . . . . .	.....	{ m. 12.50 u. 11.75	{ m. 3.00 u. 2.80	.....
September . . . . .	.....	{ m. 8.50 u. 9.00	{ m. 2.77½ u. 2.80	.....
October . . . . .	{ ..... u. 42.50	{ m. 5.00 u. 5.25	{ m. 2.25 u. 2.02½	.....
November . . . . .	{ m. 37.75 u. 32.75	{ m. 4.65 u. 4.00	{ m. 1.75 u. 1.95	.....
December . . . . .	{ m. 30.25 u. 30.50	{ m. 3.00 u. 3.25	{ m. 1.65 u. 1.55	.....

even some time after the Revolution in the middle of the year 1919 (June 28, 1919) it maintained a rate of 18.5 centimes, a level which not even the boldest financial plan on the part of Austria or of the League of Nations would dream of reaching again. This proves that by a timely interference the déroute of the Austrian exchange might have been inhibited or avoided entirely at much smaller sacrifices than are now demanded. It proves further, that this depreciation was brought about by the one-sided measures of the Succession States, which were carried through without the slightest regard for the Austro-Hungarian Bank or for the exchange of the notes left to Austria. Another reason was the enormous inflation of bank notes in Austria, herself, which became inevitable because of the

financial wants of Austria, the terrible shortage of commodities, the rise of all prices, chiefly of those for imports, naturally caused by the depreciation itself, and so on in endless succession. Still the Austrian krone retains a higher purchasing power at home than abroad.

But this one isolated fact which is favorable for the consumer, now begins to vanish, as the rise due to wild speculation with wares and foreign values has brought the prices of commodities and wages almost on a par with those in foreign countries. In some cases they have even surpassed them. What this means while the Austrian krone is almost completely depreciated (on July 21, 1921: 0.77 centimes at Zurich) can well be imagined. So it came to pass that of late

even the Hungarian krone, which had always been valued lower, gained considerably over the Austrian krone on July 21, 1921: 1.85 centimes) so that the exchange of goods with this neighboring country was rendered much more expensive for Austria.

The financial scheme of the League of Nations which was abandoned almost as soon as it had been started could effect only a quite transient improvement of the rate of exchange on the cheques on Vienna at Zurich to 1.70 centimes (April 16, 1921). Beside the continuous delay of the promised international credits, the Austrian rate of exchange was prejudiced by the news that the program of the delegates of the League of Nations provides for a stabilization of the rate of exchange only on the bases of one to two, that is, hardly above the present level. (But not even for this plan could the most necessary condition, the suppression of the general mortgage laid on all the revenues of Austria by the peace terms, be obtained.) The presumable failure of such a scheme, even if it could be carried out with fewer sacrifices, was valued accordingly in the money market. Beside the repeal of the kronen import embargo and its consequence, the equalizing of the Auslands- and Inlands-kronen depreciated the rate of exchange of the Auslands-kronen, as the reason for its being valued higher was partly removed. Soon after, the rate of exchange of kronen bank notes and cheques dropped rapidly to reach its lowest level on July 21, 1921. The sole consolation for this financial ruin of a country may perhaps be found in the fact that, on the same day the Polish mark, though from other causes, was rated at Zurich at only 0.32 centimes and was somewhat nearer the low water mark.

The situation of the Austro-Hun-

garian Bank, as far as it has the function of issuing notes for the Republic of Austria, has naturally become worse. The circulation of stamped Austrian bank notes already amounted to 50.14 billion kronen on July 7, 1921, the other liabilities due immediately, to 9.1 billions; these were covered by a mental reserve including gold bonds only up to 5,220,132 kronen. The principal assets are the treasury bonds issued by the government and presented at the Austro-Hungarian Bank to the amount of 47.8 billion kronen. When in January, 1920 the Austrian bank notes inflation was disclosed for the first time apart from that of Hungary and that of the non-stamped and nationalized notes of the former Monarchy, the Austrian circulation amounted to only 13.2 billion kronen, whereas the gold reserve amounted to 222.6 million (beside 11.4 millions gold bills and 57 million silver currency). The total bank notes circulation of the former Monarchy amounted to 35.6 millions kronen at the end of 1918, *i.e.*, previous to the real financial explanation.

Table 3 shows the development of the bank note circulation in millions kronen.

On top of all this, there came the liquidation which is forced upon the bank by article 206 of the Treaty of St. Germain. This was only actually begun in the year 1920. According to the wording of the Treaty the former managers of the bank, as the legitimate representatives of the shareholders and the Austrian and Hungarian government, are totally excluded from the liquidation, and only the liquidators nominated by the Reparations Commission are charged with the liquidation. The first difficult problem of liquidation concerned the remaining gold reserve of the bank (still 222.7 millions kronen in gold on November

TABLE 3  
INFLATION IN BANK NOTES IN AUSTRIA

Situation on	Metal reserve (incl. of cheques)	Total circulation	Circulation of Austrian notes	Circulation of Hungarian notes
December 31, 1918 . . . . .	342.65	35,588.6	.....	.....
December 31, 1919 . . . . .	297.36	53,109.4	.....	.....
January 31, 1920 . . . . .	291.08	56,772.8	13,266.8	.....
March 15, 1920 . . . . .	286.76	60,197.3	14,793.0	.....
November 15, 1920 . . . . .	325.73 <sup>a</sup>	74,124.4	25,977.9	12,000.0

<sup>a</sup> The fluctuations in the metal reserve are produced by the changing state of the gold cheques included (November 15, 1920: 46.6 billion) in the figures for the year 1921 most of the metal reserve is excluded or belongs to the liquidation stock.

INFLATION IN BANK NOTES IN AUSTRIA AND HUNGARY

Situation on	Austria		Hungary	
	Metal reserve	Circulation of banknotes	Metal reserve	Circulation of banknotes
May 23, 1921 . . . . .	5.06	44,244.3	0.18	12,725.1
May 31, 1921 . . . . .	7.09	45,583.1	0.18	13,685.6
June 30, 1921 . . . . .	6.63	49,685.1	0.18	18,095.9
July 7, 1921 . . . . .	5.22	50,142.6	0.18	17,923.8

15, 1920; 46.6 millions gold bills on foreign countries and 56.4 millions in silver currency).

Although only Austria and Hungaria and not the Succession States are liable for the foreign circulation of the old Austrian bank notes according to the Peace Treaty, all the Succession States try to make their claims on the gold reserve. By order of the Reparations Commission the bank handed over, to begin with, an amount of 65 million gold kronen to the liquidators out of which advances were given to the Succession States. Austria received, after a credit already paid back to Holland had been deducted, about 8 million gold kronen.

Concerning other problems, too, the enforcement of article 206 of the

Treaty of St. Germain caused the greatest difficulties. It is now generally acknowledged that the strict application of these decisions of the Peace Treaty cannot be carried through; the liquidators are now bringing about an agreement between the Succession States concerned, regarding the problem of recovery of the bank notes, the liabilities to the creditors of the notes, etc. But this attempt at some agreement encounters great difficulties in the Succession States, so that all these complicated legal and financial questions are waiting for settlement—much to the damage of the Austrian currency whose rate of exchange has to suffer by the uncertainty concerning finances and currency. A settlement will go far toward stabilization.

## SUMMARY

The whole situation of Austrian finance is not promising for, as we have seen, it is an immediate consequence of an unequal distribution of burdens at the creation of the new National States out of the ruins of the old Monarchy. Under these circumstances the bank note inflation appears as a necessary consequence of the general financial situation; as a matter of course, it continues to depress the value of the currency and forces up the price of all commodities. It is characteristic enough that neither the announcement of an "action of the League of Nations" and the financial program elaborated for this purpose, nor the promised credit of foreign values could bring about the expected improvement on the kronen exchange in the foreign markets. On the contrary, shortly after, the Austrian krone suffered a slump down to 0.87 centimes (on cheques, Zurich-Vienna), and closed with 0.90 centimes for cheques and 0.79 centimes for stamped Austrian bank notes on July 3, 1921.

We may infer from all these facts that preliminary to the introduction of a new currency, a rise of the Austrian kronen value must be the aim. By the accumulation of ample gold funds and suitable measures based on extensive instalments of credits from the League of Nations in all the principal money markets, the krone might be raised to equal 8 Swiss francs on the average, thus enabling Austria to trade freely with the surrounding National States. *At the very lowest a rate of exchange of about 4 to 5 ought to be attained if a move toward reconstruction is to be made with any prospect of success. Subsequent only to having reached such a desirable basis by easy stages and within a suitable period of time so as to avoid any abrupt changes (endan-*

gering the export manufactures with the effects of a presumable slump), the introduction of a new currency and the stabilization of the new rate of exchange might be attempted. This will necessitate a continuation of foreign support in future. The proposed respite of only twenty years before the enforcement of the right of a general mortgage on the Austrian revenue, will prove too short under these circumstances as there must be a possibility of prolonging open foreign credits beyond this period.

An attempt at stabilization on the existing basis of 1 or 2 would allow only a hand to mouth existence in the present fashion, but not a definite reform. In the long run the majority of the people will be unable to bear all the restrictions of a mental, intellectual and physical nature. In this respect it may be important to point out particularly that the outward show of luxuries in Vienna by its numerous foreign visitors, does not allow any inference to be drawn as to the real standard of life of the laboring classes. If today love of pleasure and luxury are to be seen, if the restaurants, cafés, and pleasure resorts are crowded, it must be regarded as one of the sad symptoms attendant on any great crisis in any country. The lack of confidence in the constancy of the value of the currency leads to reckless spending as nobody likes to risk a lasting investment of capital or to save up money for the future. But it would be a great mistake to believe the true born Viennese rolls in luxury. In reality it is only the people who have enriched themselves during and after the War and who are now filling the ranks of the war-profiters and speculators by making extraordinary gains in an unscrupulous manner, running up the prices of all necessities of life, dealing in foreign values and contributing to the depreciation of the

Austrian krone. To a great extent this set of people is intermingled with foreigners, chiefly former "war-refugees" from Eastern Galicia and Bucovina, who, after having settled down in Vienna permanently, make the best of the prevailing conditions by accumulating riches.

In this respect the low rate of exchange has had the most serious consequences for Austria. It first led to selling off Austrian necessities, which wandered abroad frequently only to be re-imported after a time and sold at a high price when the shortage of commodities became intolerable. This favorable opportunity over, an unrestrained speculation in foreign values and exchanges set in to the detriment of the rate of exchange and purchasing capacity of the krone at home and abroad. In Austria many of the parasites described contribute vastly toward the rise in prices and there is no legal means to stop them or even to subject them to an effective taxation. Apart from this motley crowd of speculators from home and abroad, the set securing the doubtful fame of Vienna as a center of "luxuries and pleasures,"

is formed of foreigners. They flock together from the National States and the abnormally high purchasing power of their money makes Vienna the "cheapest city in all the world" for them. Exactly like the above-mentioned set of Austrian and foreign speculators they are in a position to satisfy a taste for the luxuries of life which is denied to the rest of the population. The restaurants, places of entertainment, big emporiums, theatres and even the places where serious art is cultivated reckon with the "new rich" as their chief customers, whereas the enjoyment of all the refinements of art and civilization is denied to the intellectual middle classes of the native population.

The antagonism of the classes and masses has thus been intensified in an alarming degree. A new exceedingly low-bred social layer has come to the surface, the "new rich." It will be a long and arduous task to heal the serious economic, social and, last but not least, the injuries to ideals in the new Republic of Austria and this task will require the steady, organized assistance of the civilized countries of the West.

## CHAPTER VII

### Austrian Banks

By DR. MAX SOKAL

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IT was prophesied of Austrian Banks, that after the collapse of the Austro-Hungarian Monarchy they would have greatly to reduce their establishments on account of the diminution of their sphere of action, the vastness of their organizations being wholly out of proportion to the requirements of crippled Austria.

So far this hypothesis has been dis-

proved by facts. The banks very soon had to extend their business, to increase their staff, to enlarge their premises; and the turnover of the last financial year, where balance sheets are already available, shows a considerable surplus over that of preceding periods, a surplus, which is, of course, partly accounted for by the steady depreciation of Austrian currency.